

Message Text

SECRET

PAGE 01 ROME 05361 312037Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----312040Z 107084 /42
O 311915Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASH DC IMMEDIATE 3735
TREAS DEPT WASH DC IMMEDIATE

S E C R E T ROME 5361

EXDIS

E.O. 11652: GDS
TAGS: PFOR, EFIN, IT, IMF
SUBJECT: REQUEST FOR US SUPPORT FOR IMF APPROVAL OF STANDBY

REF: ROME 5296

SUMMARY.

1. I CALLED ON MINISTER OF TREASURY STAMMATI AT HIS REQUEST MARCH 31. THE MINISTER WISHED TO EXPLAIN THE STATUS OF THE GOI/IMF NEGOTIATIONS OF THE STANDBY AGREEMENT AND TO SEEK US SUPPORT IN IMF FOR FAVORABLE CONCLUSION OF THE STANDBY.

END SUMMARY.

2. MINISTER STAMMATI EXPLAINED THAT DURING HIS BRIEF VISIT TO WASHINGTON ON MARCH 29 HE HAD MET WITH IMF MANAGING DIRECTOR WITTEVEEN AND DIRECTOR OF EUROPEAN DEPARTMENT WHITTOME TO EXPLAIN STATUS OF GOI-LABOR UNION NEGOTIATIONS. MAIN ISSUE CONCERNED TWO CLAUSES IN FISCALIZATION DECREE WHICH DEAL WITH COMPANY LEVEL WAGE INCREASES AND STERILIZATION OF FEEDBACK EFFECT OF VALUE ADDED TAX INCREASE. STAMMATI SAID THAT TOP IMF MANAGEMENT WISHED BOTH TO OBTAIN BEST STABILIZATION PROGRAM POSSIBLE IN ITALY AND TO AVOID ANY CRITICISM

SECRET

SECRET

PAGE 02 ROME 05361 312037Z

OF IMF FROM SUCH MAJOR MEMBER COUNTRIES AS US AND GERMANY. IMF MANAGEMENT WAS PREPARED TO ACCEPT: (A) SOLEMN DECLARATION BY LABOR UNIONS TO GOVERNMENT THAT THEY WOULD ATTEMPT TO RESTRAIN COMPANY LEVEL WAGE INCREASES (IN LIEU OF DISINCENTIVES IN ARTICLE 3 OF FISCALIZATION DECREE LAW), AND (B) REPLACEMENT OF ARTICLE 4/WHICH WOULD STERILIZE IVA FEEDBACK WITH EQUIVALENT CONCESSION WHICH WOULD REDUCE SCALA MOBILE INCREASE BY MODIFYING PRICES

OF SOME PUBLIC SERVICE RATES INCLUDED IN SCALA MOBILE BASKET. IMF PRESSURE GOI TO MODIFY PRICES OF NEWSPAPERS, URBAN TRANSPORT, ELECTRICITY, GAS RAILROAD FARES, POSTAL FEES AND DIESEL OIL. STAMMATI SAID THAT LAST ITEM WAS IMPOSSIBLE BUT THAT HE WOULD MAKE BEST EFFORT ON OTHER ITEMS. WITTEVEEN STRESSED NEED TO OBTAIN REDUCTION IN SCALA MOBILE BY 1.79 POINTS WITH SUBSTITUTE MEASURES. IN SUBSEQUENT MEETING, WHITTOME/ ASSIGNED RELATIVELY MORE IMPORTANCE TO NUMBER OF ITEMS WHOSE PRICE COULD BE MODIFIED. STAMMATI THEN DEPARTED WASHINGTON BEFORE GOI-LABOR TALKS IN ROME HAD BEEN COMPLETED.

3. THE MINISTER ARGUED THAT THE GOI-LABOR UNIONS' COMPROMISE MEASURE WAS QUALITATIVELY AND QUANTITATIVELY EQUIVALENT TO STERILIZATION OF IVA. THIS WAS BECAUSE USE OF PUBLIC SERVICE RATES AS REVENUE MEASURES WAS SUBSTITUTIBLE FOR USE OF INDIRECT TAXATION AND BECAUSE REDUCTION IN SCALA MOBILE BY 1.49 POINTS UNDER COMPROMISE AGREEMENT WAS NEARLY AS MUCH AS 1.79 TARGET SUGGESTED BY WITTEVEEN. HE THOUGHT THAT IT WOULD BE A GREAT PITY NOT TO REACH AGREEMENT ON STANDBY WHEN TWO PARTIES WERE NOW SO CLOSE TOGETHER. IF THERE WERE BREAK-OFF OF NEGOTIATIONS HE FEARED THAT THERE WOULD BE MONETARY CRISIS, WITH DOWNWARD SLIDE OF LIRA AND WITH GOI FORCED ONCE AGAIN TO INTRODUCE PRIOR DEPOSIT, EXCHANGE TAX OR SIMILAR DIRECT CONTROLS.

4. HE THOUGHT IT WAS URGENT THAT STANDBY NEGOTIATIONS
SECRET

SECRET

PAGE 03 ROME 05361 312037Z

BE CONCLUDED SUCCESSFULLY AND HOPED THAT US WOULD TAKE AT LEAST A "NEUTRAL" POSITION IN IMF BOARD OF DIRECTORS. ADMITTEDLY, THE STABILIZATION PROGRAM WAS NOT PERFECT BUT GOI AT LEAST HAD TAKEN STEPS IN THE RIGHT DIRECTION.

5. I ASKED WHETHER THERE WERE SOME WAY IN WHICH GOI AND IMF COULD AGREE ON LANGUAGE IN LETTER OF INTENT WHEREBY GOI WOULD COMMIT ITSELF TO TAKE ADDITIONAL STABILIZATION MEASURES IN EVENT THAT MEASURES TAKEN TO DATE DO NOT RESULT IN SUFFICIENTLY LARGE REDUCTION IN LABOR COSTS AND INFLATION. STAMMATI INDICATED THAT PARA 13 OF DRAFT LETTER OF INTENT DEALS WITH SUCH AN EVENTUALITY. I SUGGESTED THAT PERHAPS THIS LANGUAGE COULD BE STRENGTHENED IN SOME WAY IN ORDER TO SATISFY IMF.

6. I ALSO MENTIONED THAT I HAD THE IMPRESSION THAT IMF MANAGEMENT DID NOT FEEL THAT IT HAD YET BEEN PROPERLY INFORMED OF FINAL OUTCOME OF GOI-LABOR UNION COMPROMISE

AGREEMENT AND THAT THAT PERHAPS IT WOULD BE USEFUL FOR ITALIANS TO CONTACT FUND MANAGEMENT TO GIVE ORAL EXPLANATION AND DEFENSE OF COMPORMISE. THE MINISTER SAID THAT HE WOULD TELEPHONE WITTEVEEN. I PROMISED STAMMATI THAT I WOULD CONVEY HIS MESSAGE TO WASHINGTON.

7. DURING MEETING WITH STAMMATI I ONCE AGAIN INQUIRED WHY GOI COULD NOT REOPEN TALKS WITH LABOR UNIONS. MINISTER REPLIED THAT LABOR LEADERS WERE IN WEAK POSITION VIS-A-VIS RANK AND FILE AND THAT REOPENING OF NEGOTIATIONS WAS NOT POSSIBLE. HE CONFIRMED TO ME, AS HAD PRIME MINISTER ANDREOTTI, THAT GOI HAS DONE ALL THAT IT CAN FOR THE MOMENT. I WOULD LIKE TO RETIERATE MY RECOMMENDATION IN REFTEL THAT USG

PROMPTLY EXPRESS TO IMF TOP MANAGEMENT ITS STRONG SUPPORT FOR FAVORABLE CONCLUSION OF IMF STANDBY NEGOTIATIONS.GARDNER
SECRET

SECRET

PAGE 04 ROME 05361 312037Z

SECRET

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGREEMENTS, DIPLOMATIC DISCUSSIONS, PROGRESS REPORTS, NEGOTIATIONS, ECONOMIC PROGRAMS, LOANS
Control Number: n/a
Copy: SINGLE
Sent Date: 31-Mar-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME05361
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770111-0380
Format: TEL
From: ROME
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t1977032/aaaaabpm.tel
Line Count: 139
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 981dd0b1-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 77 ROME 5296
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 11-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2990150
Secure: OPEN
Status: NATIVE
Subject: REQUEST FOR US SUPPORT FOR IMF APPROVAL OF STANDBY
TAGS: PFOR, EFIN, IT, US, IMF
To: STATE TRSY
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/981dd0b1-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009